

Message Text

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2202

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TAGS: ETRD IN

SUBJECT: PROBLEMS OF INDIA'S JUTE INDUSTRY

FOLLOWING SENT ACTION NEW DELHI FROM CALCUTTA JUNE 15

REPEATED:

CALCUTTA 1193

1. INDIA'S JUTE INDUSTRY HAS SINCE THE FIRST OF THE YEAR UNDERGONE A PERIOD OF DIFFICULTY AND FRUSTRATION, ACCOUNTABLE MAINLY TO ELECTRIC POWER SHORTAGES WHICH HAVE HOBbled PRODUCTION BY AMOUNTS RANGING FROM 15-50 PERCENT PER MONTH. THE 33-DAY STRIKE OF JUTE MILL WORKERS IN JANUARY -FEBRUARY WAS ANOTHER MAJOR CONTRIBUTING FACTOR TO THE SLIDE. THE PRODUCTION LOSS DUE TO THE STRIKE AS ESTIMATED BY JUTE MILLS ASSOCIATION AUTHORITIES IS AROUND 100,000 TONS, VALUED AT ABOUT RS 40 CRORES (US\$50 MILLION), THIS FIGURE SEEMS HIGH TO US IF PAST MONTHLY PRODUCTION STATISTICS CAN BE TAKEN AS A GUIDE. LOSSES WERE, HOWEVER, SIZEABLE AND SIGNIFICANT.

2. THE FOLLOWING COMPARATIVE STATISTICS (SOURCE: OFFICE OF THE JUTE COMMISSIONER) PROVIDE A GAUGE OF THE CONDITION OF THIS KEY INDIAN INDUSTRY, THE COUNTRY'S LARGEST FOREIGN EXCHANGE EARNER:

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JUTE PRODUCTION FIGURES (IN TONS)

1972 1973 1974

JANUARY 11,900 92,100 47,500

FEBRUARY 105,900 92,800 59,800

MARCH 117,300 105,400 93E300

APRIL 112,600 93,900 76,800

JUTE EXPORT FIGURES (IN TONS)

9772 1973 1974

JANUARY 51,500 47,200 41,900

FEBRUARY 54,400 42,900 15,800

MARCH 55,700 44,000 45,400

3. PRODUCTION PROBLEMS AND SHORTFALLS HAVE PARADOXICALLY COME AT A TIME WHEN RAW JUTE SUPPLY IS ABUNDANT, MILLS HAVE ON HAND AMPLE STOCKS, AND THE SCOPE FOR THE INDUSTRY'S GROWTH AND EARNINGS HAVE GREATLY INCREASED. ALTHOUGH INDIAN SPOKESMEN OFTEN OVERSIMPLIFY THE ISSUE, INCREASED COSTS OF CRUDE OIL AND ITS SYNTHETIC DERIVATIVES HAVE IN MOST PARTS OF THE WORLD MADE JUTE PRODUCTS MORE COMPETITIVE. IN FACT, PRODUCTION OF CARPET BACKING, HESSIAN (BURLAP) AND SACKING IS AT A POINT NOT KEEPING UP WITH DEMAND, AND THE INDUSTRY IS UNABLE TO ACCEPT FRESH BUSINESS AND FINDS ITSELF LAGGING BEHIND DELIVERY SCHEDULES. SOME INTERESTING STATISTICS FROM THE JUTE FABRICS SHIPPERS ASSOCIATION CONTRAST AVERAGE MONTHLY EXPORT SALES TO AVERAGE MONTHLY PRODUCTION DURING THE PERIOD OCTOBER 1973-APRIL 1974:

EXPORT SALES (TONS) PRODUCTION

CARPETBACKING	23,000	14,000
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HESSIAN (BURLAP)	27,000	25,000
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SACKING	22,000	35,000
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4. PRICES OF HESSIAN HAVE RECENTLY SPURTED TO SUCH HIGHS THAT INDIAN JUTE EXPORTERS HAVE ATTEMPTED TO FILL NEW, MORE LUCRATIVE SPOT ORDERS AT THE EXPENSE OF EXISTING CONTRACTS (SEE BELOW).

UNLIKE CARPET BACKING, THE PRICE OF WHICH IS FIXED, (PERMITTING DIRECT MANUFACTURER-IMPORTER CONTRACTS), HESSIAN SALES INVOLVE VARIOUS MIDDLEMEN. A

DEGREE OF SPECULATION IS THUS ADDED WHICH FURTHER DISTORTS THE SUPPLY-DEMAND PICTURE. THERE HAS BEEN AS A RESULT A DIVERSION OF PRODUCTION FROM CARPET BACKING TO HESSIAN IN ORDER TO EXPLOIT THIS RECENT PRICE TREND. THE FIXED PRICE OF CARPET BACKING WAS RAISED BY THE GOVERNMENT FROM RS. 4500 TO RS. 5200 PER TON IN JANUARY 1974 TWO MONTHS LATER, GOVERNMENT INCREASED THE EXPORT DUTY ON THIS COMMODITY BY RS 45 PER TON TO RS 650 PER TON FOR PRIMARY AND RS 750 PER TON FOR SECONDARY BACKING. JUTE INDUSTRY SOURCES VIEW THESE STEPS AS HAVING BEEN LARGELY RESPONSIBLE FOR THE DECLINE IN NORTH AMERICAN PURCHASES OF CARPET BACKING (THERE WAS REPORTEDLY NO CORRESPONDING INCREASE IN PRICE OF THE SYNTHETIC SUBSTITUTE, POLYPROPYLENE, WHICH IS NATURAL GAS - AND PETROLEUM BASED.

5. INDUSTRIALIST TEMPTED TO TAKE ADVANTAGE OF THE RECENTLY BUOYANT HESSIAN MARKET ENTERED INTO SPOT DELIVERY CONTRACTS WHICH IN EFFECT MEANT DEFERRING DELIVERY AGAINST EXISTING CONTRACTS WITH TRADITIONAL BUYERS. THIS RESULTED IN THE INDUSTRY'S COMMITTING ITSELF TO DELIVER MORE HESSIAN THAN IT HAS THE CURRENT MEANS TO PRODUCE. BY LATE MAY THIS TENDENCY BECAME APPARENT TO THE JUTE COMMISSION, WHICH TOGETHER WITH THE UNION COMMERCE MINISTRY CLAMPED DOWN A ONE-MONTH MORATORIUM (JUNE) ON REGISTERING NEW EXPORT CONTRACTS FOR HESSIAN. THE INDUSTRY WILL THUS BE FORCED TO FILL EXISTING CONTRACTS UNTIL THERE IS CAPACITY TO EXPAND PRODUCTION (MEANING MAINLY UNTIL SUFFICIENT POWER IS AVAILABLE TO PERFORM CLOSER TO CAPACITY). JUTE AUTHORITIES REGARD THIS AS ONLY A TEMPORARY RESTRICTION, AND NEW ORDERS FOR DELIVERY IN JULY ARE ALREADY BEING TAKEN WITH FULL OFFICIAL COGNIZANCE AND APPROVAL.

6. THE INDUSTRY'S IMMEDIATE PROSPECTS HINGE GREATLY UPON POWER AVAILABILITY, AND IT IS WITH THIS IN MIND THAT MILL OWNERS,
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ENCOURAGED BY GOVERNMENT, ARE APPLYING FOR LICENSES TO IMPORT CAPTIVE DIESEL GENERATING SETS (TESTIMONY TO AN AWARENESS THAT THE POWER SHORTFALL IS NOT GOING TO BE EASILY OR QUICKLY REMEDIED OTHERWISE). WE UNDERSTAND THAT SOME LICENSES HAVE ALREADY BEEN GRANTED. THE GRAVE POWER SITUATION AND RESULTANT PRODUCTION BACKLOG AFFECTS THE WELFARE OF THE ENTIRE JUTE INDUSTRY COMPLEX, FROM GROWER TO MANUFACTURE. GOVERNMENT IS ATTEMPTING TO PREVENT SEVERE DISLOCATIONS IN THE COUNTRYSIDE AND FURTHER DEPRESSION OF RAW JUTE PRICES BY PERMITTING THE EXPORT OF A LIMITED AMOUNT OF RAW Baled JUTE. SIGNED PICKERING
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